

CHESTERFIELD COUNTY

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April 9, 2003

The Honorable Members of the
Board of Supervisors
County of Chesterfield
Chesterfield, Virginia 23832

Dear Members of the Board:

I am pleased to submit to you and to the citizens of Chesterfield County the Biennial Financial Plan for Fiscal Years 2002-2003 and 2003-2004. This budget is the second year of the biennium and presents revenues and expenditures for FY2004 as well as projections for three succeeding years. It balances all revenues and expenditures and reflects an allocation of resources guided by the objectives of the Board of Supervisors.

It seems as though in difficult times the strong tend to pull together harder, people are more willing to lend a hand to friends and even strangers, more gets done with less, and our focus tends to shift to the most critical of all priorities. Over the past year I have witnessed many examples of these positive qualities. This budget was developed with similar principles. Employees have given to the community in many ways, continued to be creative in the delivery of services under constrained or reduced budgets, and remained focused on meeting the most critical of customers needs.

In a time when state budget deficits are at their highest levels this organization has made great strides and accomplished amazing feats. Such accomplishments have not however, come without many difficult challenges and decisions. Our employees have more than answered the call within the limitations that they faced and I am confident they will continue to do so. This organization has remained committed to providing the necessary array of services citizens have become accustomed to, and will continue to do so in the coming year.

Once again, the development of this budget has been most challenging. The continued sluggish national and state economy, combined with budget reductions and unfunded commitments from the state, have significantly impacted our ability to maintain existing service levels. We have attempted as best possible to minimize the effects of such reductions. While the population continues to grow, so has the demand for existing services. While growth in the budget continues, local taxes per capita remain consistent with last year indicating continued efficiency in our ability to deliver services.

On the Revenue Side

Several factors have impacted the revenue available for the FY2004 budget. Reductions in state funding have had significant impact on the FY2004 budget, as the state revenues comprise approximately 20 percent of the county's general fund budget. This budget projects state funding reductions totaling in excess of \$6.1 million in FY2004. Reductions are expected in the areas of public safety, mental health, mental retardation and substance abuse services, social services, constitutional officers, libraries, juvenile crime control, substance abuse reduction efforts,

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juvenile detention, and in general county revenues such as wine/ABC profits and HB599 funding. These cuts have resulted in the reduction of programs and additional strain on already thin general fund revenue sources.

We have evaluated each and every cut as it has been passed down from the state to determine the best approach for addressing the impact. Generally, we have attempted to absorb the funding losses in the areas where not doing so would directly impact citizens. In some cases the departments have been asked to absorb the funding losses and have made expenditure adjustment to compensate. In other instances, such as the sheriff, additional revenue sources were implemented to offset the loss of state funds. In short, every effort has been made to minimize the impact of state cuts on our citizens. Some tough choices have been made, but I believe we have acted carefully, deliberately, and fiscally responsibly.

The sluggish economy across the state has impacted Chesterfield's locally generated revenues as well, with lower interest earnings due to low interest rates on investments and lower sales tax revenue due to lackluster retail sales. Car registrations for the first nine months of FY2003 are also somewhat depressed from the same period one year ago. One highlight in these economic times is that real estate tax revenues remain strong as low mortgage rates are appetizing to homebuyers and Chesterfield's market remains desirable. Given the uncertainties in the economy projected over the next twelve months, this budget conservatively forecasts revenue for FY2004 and beyond. Staff will continue to monitor the economic data at the national, state and local levels.

On the Expenditure Side

This year's budget development was again considerably constrained by available resources. State funding

OBJECTIVES OF THE BOARD OF SUPERVISORS

- Maintain the current tax rate structure.
- Provide service levels that ensure a high quality of life for county residents, particularly in the areas of public safety and education.
- Maximize efficiency in government and excellence in customer service, consistent with the County's Total Quality Improvement philosophy. Specific goals within this objective include the following:
 - *Improve customer satisfaction.*
 - *Pursue the use of process management.*
 - *Improve the organizational climate.*
 - *Synchronize countywide strategic planning efforts.*
 - *Improve the county's performance measurement system.*
- Provide an organizational climate that enables the county to attract and retain the kind of employees who support the county's success.
- Promote Chesterfield County as a regional partner with our neighboring communities.
- Reduce the impact of growth by creating strong partnerships with the development community.
- Maintain a fund balance of 7.5 percent of general fund expenditures.
- Administer an effective Capital Improvement Program to ensure the availability of facilities and services.
- Create an environment that attracts new businesses, encourages business expansion and retains existing businesses in the county.
- Ensure an effective process is in place to address fiscal impacts of reductions in federal and state funding.
- Create a system of planning and performance accountability that ensures optimal use of the county's resources.
- Fund future capital improvement projects through reserve funds whenever possible to reduce future debt requirements.

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reductions that we experienced in FY2003 continue to impact the county in FY2004. Departments submitted requests totaling approximately \$11.1 million; \$10.9 million of those requests remain unfunded. Areas comprising the largest proportion of these requests include personnel and capital equipment for police and fire and emergency medical services and as well as in the Human Services areas such as Social Services and Parks and Recreation.

Rising costs of employee health care, per diem expenses at the regional jail, costs associated with new positions and minimum staffing levels in the fire department, personnel expenses and new operating costs in the police department all presented challenges in developing this budget. In addition, we have included a 2.5 percent performance based merit increase for our employees and additional funds to adjust salaries of employees below the director level based on years of service. On average, this will bring the merit increase for employees to approximately 3 percent for FY2004.

Given these challenges, we have taken steps to adequately address the most critical of services while minimizing any impact in service to our citizens. You may recall that the FY2003 budget was adopted with funding levels for departments reflecting an approximate 1.5- percent reduction in expenditures (excluding merit increases). Those reductions have been continued into FY2004.

Difficult choices have been made as we have developed this budget. The allocation of funding within this document represents a balance between available resources and needs, a balance achieved using the priorities and objectives established by the Board of Supervisors, and consistent with established countywide strategic goals.

Providing Excellence in Public Service

I am enormously proud of the jobs performed by county employees for our citizens, day in and day out. The quality of our workforce is second to none. We are continuing to move forward - - - productively, efficiently, effectively, responsibly - - - to fulfill our mission of providing excellence in public service.

The following list illustrates, by example, advancements and recent improvements that will continue in FY2004:

- In January 2003 the triple A rating on general obligation bonds was reaffirmed by each of the three major bond-rating agencies. The county refinanced outstanding debt, saving in excess of \$2.5 million over the next eight years;
- Emergency Medical Services (EMS) system enhancements including the addition of a medical director, quality assurance coordinator, and equipment enhancements;
- Funds 18 new fire positions for the new Rivers Bend Fire Station, a \$4.2 million project financed primarily through the 1996 bond referendum, which citizens approved overwhelmingly. The station will be equipped with state of the art technology, including a sophisticated voice transmitting system for improved communication;
- Includes six new police positions including four detectives;
- Expanded policing efforts with the opening of the Clover Hill Police Support facility, which houses the Police Department's support services division and provides space for officers to conduct interviews and promote community policing efforts;
- Development of the Technology Improvement Program (TIP) which depicts the arrangement of and funding sources for major technology projects countywide, and a commitment of \$600,000 to countywide technology initiatives;
- Funds to continue support of the newly organized Chesterfield Corporate University;
- Development of a seven-year \$709,982,100 million Capital Improvement Program, which identifies potential projects in FY2005-2010 that could be placed on a future referendum, planned for the fall of 2004;

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- Continued development of an integrated, automated system known as the Chesterfield Development Information System (CDIS). Once implemented, this system will reduce cycle time and improve the accuracy of communication and data to customers;
- In 2002, Economic Development saw \$88 million in new and expanded business investment announcements and the creation of 500 new jobs in the county. While certainly off from 2001's record year figures, Chesterfield fared as well or better than other localities in the region or around the state;
- Continued targeted tax reductions such as enterprise zone and Business and Professional Occupational License (BPOL) tax reductions;
- Increased tax reductions providing more real property tax relief for the elderly at an additional expense of approximately \$200,000. The income range for providing 100 percent real property tax relief was expanded from \$0 - \$20,800 to \$0 - \$30,600. Doing so will provide greater relief to approximately 680 applicants with lower incomes, who were previously receiving 75 percent relief.

In FY98, the first citizen's satisfaction survey since 1985 was conducted. The results from the survey influenced the county's leadership to develop action plans to address key areas identified in the survey. The following areas were identified: growth/traffic congestion, customer service, education regarding county services, crime prevention, use of technology in conducting business and accessibility to services for special groups. Initiatives were established to address each of these areas.

A follow-up survey was conducted in 2001. Ninety-two percent of residents who responded indicated that Chesterfield County offers a good or excellent quality of life. Of the 105 questions in the latest survey that could be directly compared to questions asked in 1998, citizens' responses to 69 questions (66 percent) indicated improvement. The top five rated aspects about living in Chesterfield County were convenient location, schools, suburban life, safety, and affordable housing. Chesterfield County scored as high or higher than any other jurisdiction in the nation in the following three areas, based on data obtained from the National Research Center: a place to raise children; Fire and Emergency Medical services; and Utility Department (water and waste water services).

Growth management continues to be an area of concern for the public. The Board of Supervisors and county staff has implemented and are fully committed to strong growth management strategies. In June of 2002, the Board of Supervisors, Planning Commission, and School Board held a Growth Summit. In this one-day public meeting, the Board identified three general areas on which to focus attention: 1) roads, 2) the rate and distribution of residential growth and 3) increased options for growth to pay for growth. Since that time, various staff work, committee meetings and public discussion have advanced these themes looking for balanced solutions to a complex issue.

Excellence is Our Destination; Quality is Our Path

As part of our effort to avoid cost increases while improving quality and customer service, Chesterfield embraces a countywide commitment to Total Quality Improvement (TQI). Since 1992 we have been educating employees about TQI and systematically reviewing our operations for areas of potential improvement. TQI initiatives and improvements now encompass nearly all aspects of our operations. Evidence of this continuing commitment can be found throughout this budget document.

Our TQI philosophy allows us to define our goals and objectives more holistically, and to more uniformly implement a variety of quality principles. Using TQI techniques, we have achieved substantial improvements both in the design of the services we provide and in the efficiency of our existing operations. Approximately 25 percent of Chesterfield's employees have graduated from the TQI University; graduates have demonstrated increased problem-solving skills and an increased ability to work in teams.

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During FY2004 the county will continue to monitor key performance measures that are tied to the county's Strategic Plan, and will continue to benchmark with other high performing organizations. Customer service standards for all employees have been developed and adopted by the county's Leadership Group. These standards have been deployed throughout the organization. In addition, each department has recently developed department-specific customer standards to augment the county's general guidelines.

Chesterfield County has developed a cost-effective and efficient strategic planning process that has greatly enhanced its ability to better serve its citizens. The process has resulted in the establishment of countywide goals, objectives and key outcome measures that have enhanced our decision-making capabilities. What is unique about this process is the fact that this is a strategic planning process versus a strategic plan. Beginning with an environmental scan and an analysis of the county's overall strengths, weaknesses, opportunities and threats, a set of seven goals were developed and deployed to every county employee. In addition, in recognition of the role of the environment in citizens' quality of life and the responsibility all levels of government share in protecting that environment, in 2002 the Board approved the addition of an eighth strategic goal. The new goal for Chesterfield County is "To Be Responsible Protectors of the Environment." This goal means that we will protect the community by using processes, conservation, and technology that supports environmental health. These goals have been used to eliminate interdepartmental duplication of effort and identify gaps in our overall performance.

The strategic planning process established the following countywide goals:

CHESTERFIELD COUNTY STRATEGIC GOALS

1. To be exemplary stewards of the public trust
2. To provide world-class customer service
3. To be acknowledged for extraordinary quality of life
4. To be the safest and most secure community as compared to similar jurisdictions
5. To be a unifying leader of local government
6. To be the employer of choice
7. To be the FIRST CHOICE business community
8. To be responsible protectors of the environment

The county's strategic planning process is ongoing. Over the past year the county reviewed components of the plan to be sure it was still representative of the focus of the organization.

Further information regarding our strategic planning process may be found in the section entitled "Chesterfield County's Strategic Plan" in this document.

This strategic planning process is being used to link both individual and department performance to the county's overall goals, and enhance our teamwork and cross-functional cooperation. Each department narrative in this document contains several goals and objectives that show direct links to one or more of the county strategic goals. In addition, established targets are shown for each measure, as well as trend and benchmarking data. Finally, each objective has an identified list of initiatives, programs and/or activities that help to accomplish it. It speaks highly of our operations and our citizens that many organizations have chosen to recognize Chesterfield as a leader in quality government. One does not need to look very far for evidence of the superior quality of our services:

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- In 1998, Chesterfield County applied for and received the Award for Continuing Excellence (ACE). Organizations are eligible for the ACE only after earning the U.S. Senate Productivity and Quality Award (SPQA) and demonstrating an ongoing commitment to continuous improvement. The county received the SPQA award in 1994 and its quality efforts have grown and matured throughout the organization since that time. In addition, the School Board received the SPQA for 1999, and Chesterfield County now has the distinction of being the only locality in Virginia where the local government and public school system both have won this award. Chesterfield will be eligible to reapply for the ACE in 2004 and fully intends to do so.
- In November of 1996 Chesterfield County citizens approved a referendum authorizing the issuance of General Obligation Bonds. County residents voted more than three to one in favor of issuing \$228.4 million in debt to finance public safety, education, parks, and library projects. This overwhelming level of support was seen as a vote of confidence by residents in Chesterfield County's financial and programmatic planning. The approved debt was planned to be issued over a six-year period. In January 2002 the county sold the final installment of bonds approved in the referendum for construction of school and county projects (\$23.3 million). All of the projects approved by the citizens in 1996 are underway with most completed; the remaining projects will be completed in the next year or so.
- In 1997, and reaffirmed annually, Chesterfield County's strong financial standing and sound management practices resulted in a triple A bond rating from each of the three major bond rating agencies: Moody's Investors Service, Inc.; Fitch Investors Service; and Standard & Poor's Ratings Group. In receiving these triple A ratings, Chesterfield County becomes one of fewer than 25 county governments nationwide to have earned this status. These ratings will reduce interest rates for borrowing money, yielding lower costs.
- In 2002, Chesterfield County earned sixteen National Association of Counties Achievement Awards for government programs that promote responsible, responsive and effective government. This was the fourteenth consecutive year in which the County earned awards in this program. Awards in 2002 were received for programs in areas such as public safety communications (Best in Category), environmental protection, employee development and education, youth services and health. The County was co-leader in number of awards presented to Virginia localities in 2002.
- In 2002, ratings on the county's utility department revenue bonds were upgraded. All three major credit rating agencies assigned AAA ratings to the bonds, the highest possible ratings, making Chesterfield County one of two water/sewer utilities in the nation to hold such an enviable position. Achieving these highest possible ratings reflect the County's continued sound financial performance, prudent planning practices, and the strength, expertise and professionalism of management and all other County employees that have helped make this most enviable position a reality.
- Chesterfield County is qualified to apply for a second ACE Award and is preparing to do so in 2004. A team of employees is in the process of evaluating county operations against criteria for the ACE Award. The award criteria changed from when the county last earned this award. Applications will now be evaluated under the more stringent "Baldrige" criteria, criteria that is more detail oriented and requires the county to take a hard, across-the-board look at its ability to improve continuously. Named for former Secretary of Commerce Malcolm Baldrige, the criteria "reflect validated, leading-edge management practices against which an organization can measure itself."

Chesterfield's Focus on Customer Values

Chesterfield is committed to providing a government that is responsive to the needs of all residents. In recent years we have expanded our efforts to keep citizens involved in the decisions made. Consider the following

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examples that clearly demonstrate a government that is open and accessible to all residents, as well as one that focuses on quality and customer service and emphasizes the importance of things we value:

Diversity in our Community: Chesterfield County values its diverse population. As the county population grows, so too has the diversity of our citizens. With the increases in the Hispanic population the county has taken steps to make government more accessible to the Spanish speaking community. The budget provides funding for a Spanish interpreter for document translation and customer service assistance. We have employed individuals with bilingual skills as our customer's needs have changed. The Health Department has two public-health nurses, a receptionist and an outreach worker who are fluent in Spanish. Social Services has one full-time and one part-time Spanish translator. The county's web site has been translated into Spanish for departments that have the most interactions with Hispanic customers, such as Social Service, the Health Department, Police Department, Treasurer's Office and the Office of the Commissioner of the Revenue.

Caring for Our Aging Population: Chesterfield County, like many localities nationwide, has an aging population. It is projected that by 2030, almost twenty percent of the county's residents will be over age 65. The Committee on the Future in January 2003 presented its report titled "The Aging of the Population in Chesterfield County: Choices, Options, and Benefits of Aging" to the Board of Supervisors. In this report, the committee offers research, conclusions, and recommendations in the areas of information, independence and involvement as related to senior citizens. The committee is comprised of 10 citizens, 2 from each magisterial district, who commit their time to looking at issues that will affect the county over the coming years. Acting on one of the committee's recommendations, this budget provides additional funding for the Senior Connections agency that will provide for resources to coordinate services for senior citizens. Additionally, the budget continues and expands the tax relief for the elderly program.

Securing Public Buildings: In addition to the heightened awareness and initiatives of our public safety departments, and consistent with Homeland Security initiatives, the county is also taking steps to ensure a safer environment for those visiting and working in county facilities. A security management program was established last year, and this budget continues funding for facility enhancements focused on a more secure workplace. Additionally, procedures have been and will continue to be developed that strive to bring order to potentially chaotic situations such as building evacuations. Training and drills for such activities will better position individuals in the event such an activity becomes necessary.

Protecting the Environment: Last years adoption of a new goal, "To be Responsible Protectors of the Environment", has provided the guidance to further our efforts in being responsible and proactive in the protection of our environment and natural resources. An environmental management program has been developed with an emphasis on improving the management and training for employees on environmental matters to ensure compliance with federal and state regulations. The FY2004 budget provides for an environmental program focused on this goal.

Building a Better Business Community: The Board of Supervisors established a blue ribbon economic development committee in February 2002. The committee is comprised of 15 community members, being business managers or owners of small, medium and large businesses. The members represent the manufacturing and non-manufacturing business sectors. The committee's objective is to look at the issues that might hinder, as well as present ideas for enhancing business growth in the county. Committee members have been meeting with various business associations and are expected to report their findings to the Board of Supervisors in the summer of 2003.

The Context of Chesterfield County's Budget Process

The context in which the county's budget is developed is not static; rather, it is complex and ever changing. Changes in the local and national economy, as well as policy changes at the State and Federal level, have important impacts on the county's financial status. As we developed this budget, the State's burdened fiscal condition particularly impacted us. During FY2003 we positioned ourselves for expected state reductions early and watched cautiously as the governor prepared his budget for FY2004 and while the general assembly was in session. In many ways the financial demands of the county run counter-cyclical to the economy. When the economy is weak, for example, sales tax revenues tend to stagnate at the same time that demand for services increase. Chesterfield's environment has been challenged even further with the demands that accompany rapid population growth, urbanization, and an aging population.

Financial and Debt Management Policies

In response to the fiscal challenges inherent to our environment, Chesterfield adopts a conservative approach toward financial management. The portion of the county's operating budget dedicated for repayment of debt is set by policy at 10 percent of general government expenditures. In addition, the FY2004-2010 Capital Improvement Program proposes an even lower percentage with the intention of maintaining a debt ratio closer to 8.5 percent of general government expenditures. The county's policy of funding a large portion of capital expenditures "as we go" by consistently reserving 5 percent of operating expenditures for capital investments further enhances debt management.

In addition, each year the county dedicates 7.5 percent of total general fund expenditures to fund balance. This is a tenet of the Board's commitment to prudent financial planning because it eliminates the need for short term borrowing, ensures that current obligations including debt payments can be met, and provides a cushion against the potential shock of any unexpected change in revenues. This practice, along with our conservative debt management policies, allows the county to maintain its enviable bond rating. The county's prudent financial policies were reaffirmed in 2003 when the county's general obligation debt was rated AAA by all three major rating agencies while refinancing certain higher rate maturities.

Multi-Year Budgeting

The biennial budget is another approach that helps Chesterfield maintain a proactive financial posture. Our multi-year projections of both revenues and expenditures permit policy makers and staff to foresee future needs and to plan for managed growth in services. Additionally, the multi-year budgeting process allows Chesterfield to rationally plan for multi-year acquisitions and program financing, thereby allowing for maximized cash flow and investment.

Fiscal year 2004 is the second year of the 2002-2003 and 2003-2004 Biennial Budget. This document references the FY2003 Adopted figures, the FY2004 Biennial Planned budget and FY2004 Adopted budget. The Biennial Planned figures are those that were presented one year ago reflecting the plan at that time; the FY2004 Adopted figures represent this year's budget which covers the time period from July 1, 2003 to June 30, 2004. In addition, the FY2002 actual funding levels are presented. The FY2005-2007 projections are based on conservative revenue estimates, and project baseline expenditure growth in the cost of providing current levels of service. The only new positions and/or increases in the operating budget included in these projections are ones that are associated with the opening of new facilities. Limited necessary replacement capital is also included in the projections. Performance based salary increases are not contained in the projection figures.

Projected debt service expenditures are based on requirements of current debt service, along with debt issuance planned in the future to accomplish the Capital Improvement Program, which includes potential referendum projects as well as certain lease-purchase projects. Fund balance in the General Fund is maintained at 7.5 percent of expenditures and funds for "program enhancements," if available, are identified to fund increased costs due to growth and operating costs of new facilities and programs.

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Regardless of the county's efforts to maintain and predict our financial standing, we are not invulnerable to external factors. An understanding of local and national economic trends, as well as State and Federal financial policies, is critical to predicting and managing the county's continued financial integrity.

The Economy

At the national level, Federal Reserve Districts report economic activity as "sluggish" or economic activity as "soft" or "subdued" from mid-November 2002 through early January 2003.

Holiday sales were characterized as disappointing, and consumer spending in general continues to be weak. Auto sales surged at year-end due to favorable financing incentives. Manufacturers expanded production slightly, and home sales and residential construction activity remained at high levels. Labor demand was mostly flat, and worries about the war in Iraq continue to hinder stock prices. Analysts indicate that consumers are saddled with the highest debt loads on record, and this burden, coupled with rising energy prices and lower overall confidence, could dampen consumer spending, which accounts for two thirds of all economic activity in the U.S. Analysts predict that uncertainty over the war in particular will continue to inhibit both consumer and business spending and keep economic growth at a sub-par level in the short term. Overall, however, most analysts expect the economy to grow about 3.5 percent or slightly less in 2003.

In these "soft" economic times, the state of Virginia typically manages slightly better than the nation as a whole due to the industry mix present in the state. Virginia is one of the top beneficiaries of federal defense spending, a characteristic that helps the state weather economic contractions. The high-tech industry continues to be the principal driver behind the state's economic performance. With its falter in FY2002, Virginia's economy still has not recovered well into FY2003. Area economists do however report signs that the latest available economic data indicates that the state economy is beginning to show signs of recovery. Retail sales have begun to improve, and building permits continue to grow. However, the risk of a return to recession remains although the chance of doing so has decreased. State government layoffs and spending reductions will only dampen growth. Employment growth in the state is sluggish and initial unemployment claims have begun to climb.

The Richmond-Petersburg Metropolitan Statistical Area, which includes Chesterfield County, as a whole supports a diversified industrial base which has enjoyed economic prosperity through the 1990s. While the recent recession has slowed this growth, this diversification should shelter the region from severe impacts. Nevertheless, continued lackluster stock prices, ongoing soft retail sales, overseas conflict, a lack of consumer confidence and high household debt burdens continue to affect the national and local economies.

Uncertainties in State Funding

While Virginia enjoys some protection from economic contractions, the most recent downturn has led to revenue shortfalls in the state budget for FY2002 and necessitated cuts in the FY2003 and FY2004 budgets. In Governor Warner's 2003 Executive Budget Document it is noted that collections in state revenue for FY2002 suffered the largest decline since at least 1960. General fund revenues are expected to increase marginally in FY2003, by one percent, and to improve in FY2004 with 5.2 percent growth. Revenues from the state comprise approximately 20 percent of the county's general fund budget and approximately 35 percent of the school's operating budget (not including state sales taxes), therefore reductions at the state level have a dramatic impact on the county. Staff expects reductions in state funding to the county for FY2004 to be in excess of \$6.1 million.

Capital and Technology Improvement Program

The Capital Improvement Program (CIP) for fiscal years 2004 through 2010 serves as a planning tool for the efficient, effective, and equitable distribution of public improvements throughout the county. It advances priorities established in recent years, and begins to lay the groundwork for a future referendum.

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The seven-year Capital Improvement Program totals \$709,982,100, and is comprised of county improvements of \$244,333,600, School Board improvements of \$318,818,500, and Utilities Department improvements of \$146,830,000.

The Board of Supervisors and the School Board have agreed to consider planning for a bond referendum in the fall of 2004. As such, the FY2004-FY2010 Capital Improvement Program has been prepared to allow the Board to identify potential projects in the FY2005-2010 planning period that could be placed on a future bond referendum. Recognizing the latest economic indicators suggest that the current recovery continues to be weak and there remains the possibility of a relapse into recession, the plan ensures that the county remains in a position to adequately address its commitments. In developing the FY2004-FY2010 CIP, we have endeavored, where possible to maintain consistency in project funding levels and schedules from last years adopted CIP. However, due to ongoing concerns regarding the economy, the plan does strike a balance and proposes that some projects be delayed. The recommended projects will enable us to address critical capital facility demands yet adhere to our established financial management policies.

Proposed expenditures in the first year of the program restore funding for several key projects that were postponed last year. Those projects are the County Jail Replacement, the Community Development Building, and the Financial/Human Resource System. Given the pressing needs for these improvements, they should be advanced and the budget and future year projections include the necessary funding for the corresponding long-term financing expenditures.

In summary, this Capital Improvement Program begins the process of planning for a referendum in the fall of 2004. The Program sustains the county's strong financial position, proposes affordable service enhancements, including an emphasis on aging facilities, and presents to the citizens of Chesterfield County the broad range of capital facilities required of a FIRST CHOICE community. More detailed information can be found in the FY2004-2010 Capital Improvement Program.

The Technology Improvement Program (TIP) is developed in conjunction with the CIP. The TIP, which prioritizes technology projects countywide, is a three-year program that identifies project costs, ongoing operating costs and anticipated funding sources. TIP projects must have a cost in excess of \$15,000, not recur annually and/or require four months or more of IST staff time to complete.

For FY2004, a total of \$600,000 is budgeted for TIP related projects. This \$600,000 is allocated from the Reserve for Future Capital Projects in the CIP. Chesterfield is making use of new technology to maximize the productiveness of available resources and to provide a higher level of customer service to its citizens. Significant technology initiatives include public safety enhancements for the fire department's technical services unit that will upgrade equipment to a digital format and continued funding for a county-wide document imaging initiative that allows county documents to be electronically stored and immediately retrieved, saving storage space and staff time. There is also a commitment to further educating our employees by way of electronic learning initiatives as well as an electronic check signature project that will enhance existing security and controls of the county's check signing operations. The TIP demonstrates the county's commitment as a technology leader in local government.

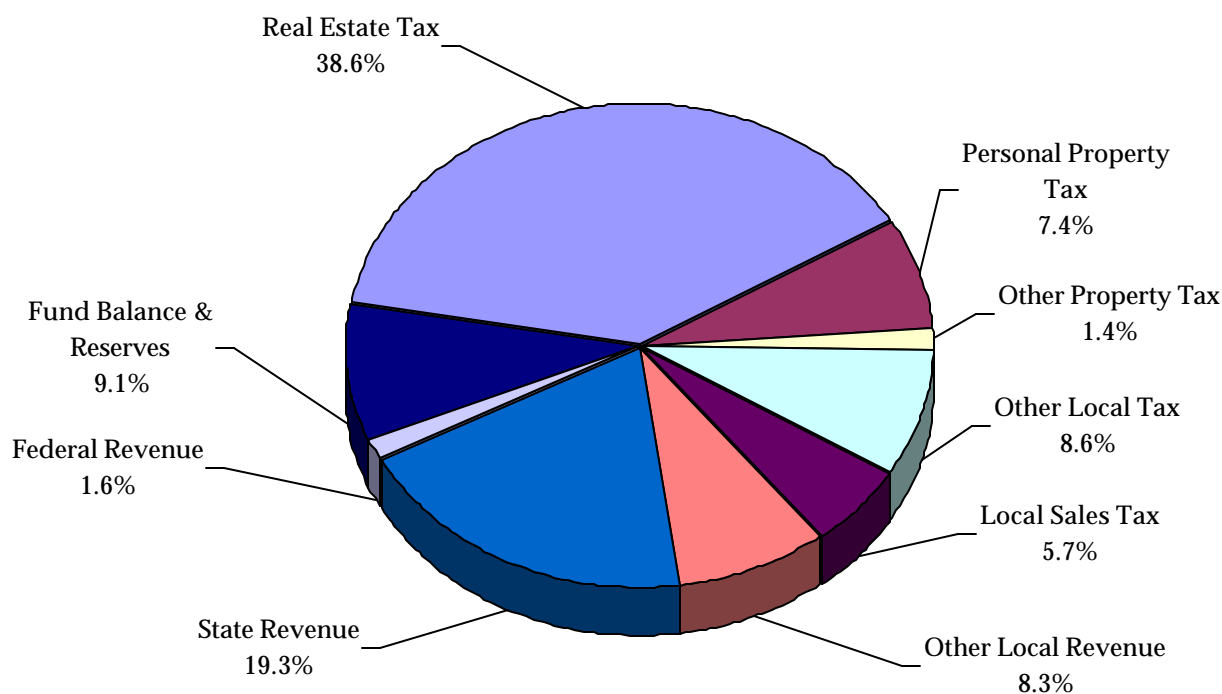
General Fund

The FY2004 budget continues to see changes to significant sources of General Fund revenues, particularly in the areas of real property tax and local sales tax. The increase in demand for services continues as the county's population grows. In difficult economic times, it becomes evermore difficult to fully address all of the needs. The demand will continue to be partially met through gains in productivity. The vast majority of department budgets include no inflation or program enhancements. With few exceptions, funding levels for all departments reflect level spending in comparison to FY2003 (excluding merit increases). The good news is that spending reduction

plans amounting to approximately 5 percent that were implemented in departments as we progressed through FY2003, in order to address state cuts, have been restored with the FY2004 budget. Most of the new resources available in FY2004, approximately \$13.4 million, have been allocated to education (\$5.3 million), public safety (\$4.2 million), and county-wide personnel expenditures inclusive of health care rate increases. For specific information on other adjustments to the FY2004 budget, please refer to individual department narratives and the appendices to this document.

FY2004 Budget

General Fund Revenues \$525,539,700



The County relies on several sources of revenue to meet demand for services, the largest of which is the tax on real property, which accounts for 38.6 percent of all General Fund Revenues in FY2004. The budget is based on a real estate tax rate of \$1.07 per \$100 of assessed value. The projected real estate revenue for FY2004 is based on the January 2003 tax year assessment of \$17.3 billion, a 8.2 percent increase over January 2002 assessments. Of the total increase, 3.5 percent is attributed to new construction and 4.7 percent to revaluations.

Personal property taxes remain a major source of revenues for the General Fund. The FY2004 budget for personal property taxes is \$38,768,100, which does not include public service personal property taxes of \$198,600 or personal property tax relief reimbursements from the state. Personal property taxes comprise 7.4 percent of the total general fund FY2004 budget.

Calendar year 2003 will be the seventh year of reimbursement under the Personal Property Tax Relief Act of 1998 (PPTRA). Under PPTRA, the state systematically reduced the percentage of personal property tax bill residents' pay. The state has reimbursed localities for the percentage not paid by residents each year between 1998 and

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2002. Since FY2001, residents were billed for 30 percent of their personal property tax on qualifying vehicles, and this reimbursement level will continue through FY2004. This budget assumes the state will reimburse the full amount of the 70 percent reimbursement, and that this reimbursement will grow at the same rate as that projected for personal property tax revenue. The FY2004 estimate assumes a 3.8 percent increase over the revised FY2003 budget for personal property revenue.

Sales tax collections depend highly on consumer confidence in the economy, which impact the level of retail sales in the area. Retail sales in the Richmond-Petersburg area have increased overall by about 1.5 percent through the first nine months of FY2003 when compared to the same period in FY2002. This is encouraging given that last year overall retail sales for the region was declining when compared to the same time period in the previous fiscal year.

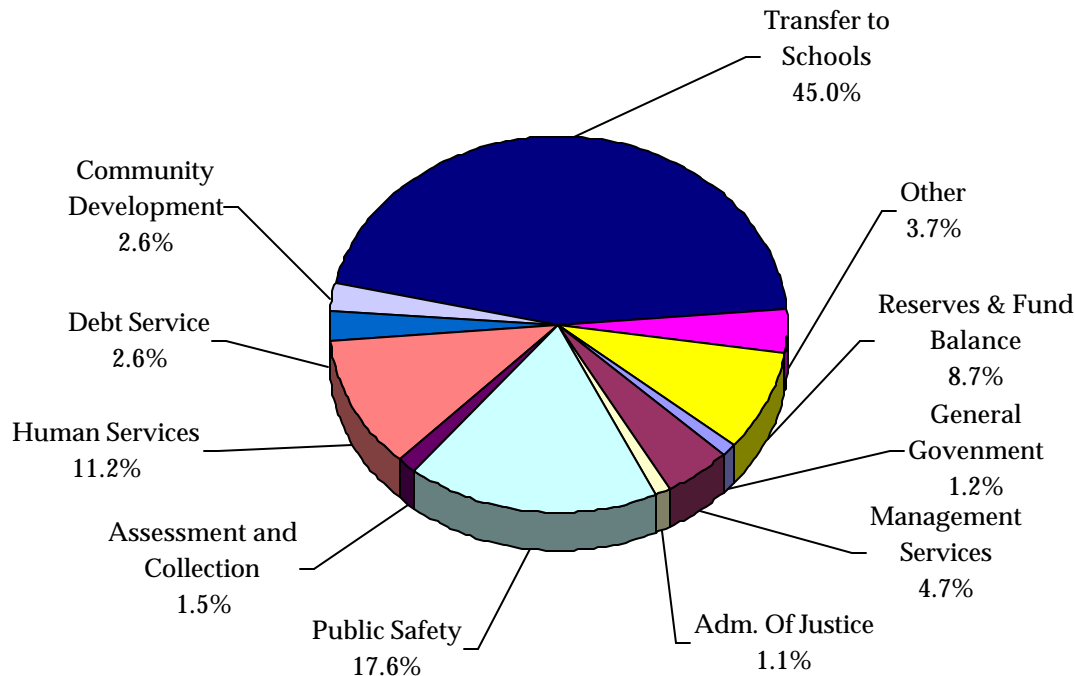
In particular, Chesterfield's retail sales for the first nine months of the fiscal year, which includes holiday sales, are positive. Year to date, Chesterfield's retail sales revenue has outpaced growth assumptions when compared to this time last year. The FY2003 budget assumed a 2.4 percent increase for the year. The FY2004 budget assumes a modest increase of only 3 percent over the FY2003 estimate with local sales tax projected at \$30,128,000, or 5.7 percent of the general fund. Estimates remain conservative given uncertainties around the economy and given that two new regional malls will be opening in the next year and the impact of those on Chesterfield's sales tax revenue is not known. Chesterfield continues to record a significant share of the region's sales, with the county's sales and use tax revenue comprising 29 percent of the region's total during the first nine months of FY2003.

The FY2004 budget continues Chesterfield County's commitment to its business community by maintaining the reductions in Business Professional and Occupational License (BPOL) tax established during FY2000 and expanded in 2001 and 2002. The Chesterfield County Board of Supervisors has made a commitment to "capping" BPOL tax revenues at the amount collected in FY1999. Beginning in 2000, growth in this revenue source was used to create exemptions to the gross receipts taxed for businesses with gross receipts over \$100,000. In 2002, the exemption level was increased from \$100,000 to \$200,000 and tax rates for various categories of businesses paying the BPOL tax were reduced, thus capping the BPOL revenue at its FY99 level. BPOL revenue was slightly higher than budgeted in FY2002 and consequently no changes in categorical rates or thresholds were made in January 2003. BPOL revenue is budgeted at \$15,656,000 for FY2004, the same as in FY2003.

More specific information regarding the county's revenue may be found in the General Fund Revenue Analysis section of this document.

The FY2004 Budget includes funds for a 2.5 percent salary increase and additional funds to adjust salaries of employees below the director level based on years of service. On average, this will bring the merit increase for employees to approximately 3 percent for FY2004. These increases for all eligible county employees will be effective on their merit date and are based entirely on individual performance. These salary increases coupled with a comprehensive benefits package and continued educational opportunities focused on job requirements will help to ensure that we do not lose productive employees to other regional employers. The county values its workforce and is proud of the accomplishments they make in delivering services to our citizens. These efforts provide an equitable pay plan geared toward attracting and retaining quality employees. Our citizens can take pride in a professional workforce that is completely committed to providing world class customer service.

FY2004 Budget
General Fund Expenditures \$525,539,700



Other significant expenditure changes in the FY2004 Budget include:

- Funds 18 new fire positions for the new Rivers Bend Fire Station and provides for operating expenses for the new station;
- Provides for enhanced Emergency Medical Services including the addition of a medical director, quality assurance coordinator, and equipment enhancements;
- Adds three firefighter positions, bringing the total to seven stations, with four person staffing;
- Adds six positions in the Police department, including four detectives;
- Provides for an increase to the local match for Federal Law Enforcement Grants for police officer salaries;
- Funds the opening of the Clover Hill Police Support Facility;
- Allocates approximately 69 percent of net property tax revenue to schools, providing an increase of approximately \$5.8 million in local funds;
- Provides funds to cover the cost of higher regional jail costs due to increasing prisoner counts;
- Funds \$270,000 for operating costs of new park facilities and programs and maintains the annual capital equipment replacement fund in Parks and Recreation;
- Commits funds to Human Services area:
 - Health-increases School's support for School Health Nurses;
 - Provides additional general fund support in Mental Health/ Mental Retardation to replace lost state revenue;
 - Community Corrections-provides funds for additional costs in the Day Reporting Center (helps lower jail costs);
 - Social Services-additional federal and state welfare revenue to offset the growth in foster care, adoptions and day care services programs;

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- Provides for an environmental management program to proactively address environmental issues;
- Continues targeted tax reductions such as enterprise zone and Business Professional and Occupational License Tax reductions;
- Increased tax reductions providing more real property tax relief for the elderly at an additional expense of approximately \$200,000. The income range for providing 100 percent real property tax relief was expanded from \$0 - \$20,800 to \$0 - \$30,600. Doing so will provide greater relief to approximately 680 applicants with lower incomes who were previously receiving 75 percent relief;
- Furthers regional relationships by continuing commitment to VCU School of Engineering, Maymont and Henricus Foundations, the Richmond Convention Center, Governor's School, and other regional initiatives and programs.

School Fund

On January 28, 2003 the School Superintendent presented his Proposed FY2003-FY2004 Financial Plan to the School Board. In his budget message Dr. Cannaday stated that the FY2004 budget continues it's focus on the "critical few" priorities that were identified last year. Those priorities are 1) preparing students for success; 2) becoming the "first choice" employer; and 3) providing a safe and effective learning environment. The proposed FY2004 plan underscores a commitment to long range planning while continuing to measure success one student, one employee, and one school at a time.

It is with great relief that the State did not reduce funding for public education. The School Board's FY2004 Annual Financial Plan totals \$421,499,200. Additionally, the county budget includes an appropriation for the School Capital Improvement Program reserve of \$7,470,700 bringing funds allocated for schools to \$428,969,900. The FY2004 School budget represents an increase of \$18,426,600 or 4.5 percent over the FY2003 level. The average daily membership (ADM) is estimated at 54,678, an increase of 1,568 over the adopted FY2003 ADM.

The FY2004 budget includes a General Fund transfer to Schools in the amount of \$236,384,300, which represents an increase of \$5,781,400 or 2.5 percent over the FY2003 Adopted level. The transfer is based on a real estate tax rate of \$1.07 per \$100 of assessed value. The net tax transfer to Schools is based on a methodology that compares growth in school enrollment to growth in population.

Efforts to prepare students for success include having an adequate number of teaching staff and maintaining the current level of transportation while experiencing growth in the system. Additionally, because the middle and high school instructional day is shorter than others in the region the FY2004 plan provides funding for additional instructional time with students. Services to special populations will be maintained with this budget and funding levels have been increased to respond to growth in those services.

In efforts to become the employer of choice, major initiatives in the budget include a 2.5 percent salary increase as well as significant contributions on behalf of employees for health care and retirement. There are also pay rate increases for summer school teachers and compensation adjustments for custodial positions. The school division faces vacancies due to retirements in key leadership positions over the next 2 to 5 years. This budget includes funding for implementation of a succession plan to provide a seamless transition. Attracting and retaining quality staff has become perhaps the most critical objective as the division strives to become the "first choice" employer in the region. These initiatives will move the school division closer to that goal.

The school division has provided a safe and effective learning environment through the addition of new and renovated facilities over recent years. These projects were funded in large part from the proceeds of bonds that were approved in the 1996 referendum. With such improvements come additional expenditures, funds for which are included in the budget, for principal and interest payments on the bonds. The school division relies on certain county provided services as a consolidation measure. Accounting, purchasing, grounds and fleet maintenance are examples

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of services for which the school division budgets. County provided services more closely aligned with a safe and effective learning environment include the high school resource officer program, school crossing guards and sixteen school health nurses. These services are now fully reimbursed to the county from the school division's budget. In light of the States budget balancing methods, leaving public education spared from reductions meant only one thing. State funding reductions were made in other service areas affecting the county. Through these reimbursements for county provided safety and health services, the county and schools have once again shown a truly cooperative relationship that has helped deliver a balanced budget in very difficult economic times.

More detailed information regarding the school budget can be found in the School Board's Approved FY2004 Financial Plan.

Utilities Fund

Chesterfield County's Department of Utilities is one of the largest water and wastewater utilities in the country and services approximately 81,000 single-family residential accounts. The Department is entirely funded by user fees.

The FY2004 Budget includes water connection fee and water/wastewater rate increases. The water connection fee continues the planned phased-in increase to provide additional capacity. The current rate structure requires that the cost of projects that provide additional capacity to support continued development be recovered from capital cost recovery charges. To provide the required funds, it is necessary to increase the water capital cost recovery charge by \$1,000 over four years. The Board of Supervisors approved three of the planned four increases over the period FY2001 – FY2003. During this time the fee has increased from \$2,592 to \$3,342. A final \$250 increase is included for FY2004 bringing the new fee amount to \$3,592. This increase is effective July 1, 2003. The increase will be used to fund the expansion of the Appomattox River Water Authority water treatment plant. The water/wastewater rate increases of 4.7 percent and 2.9 percent respectively is necessary primarily to fund \$10 million in additional replacement projects in Richmond and \$17 million in nutrient removal facilities at wastewater treatment plants to remain compliant with Chesapeake Bay Program requirements.

The FY2004-2010 Capital Improvement Program includes \$146,830,000 for planned water and wastewater infrastructure needs (\$92,290,000 for water and \$54,540,000 for wastewater). In FY2004, \$11,327,000 is allocated for the water system, and \$10,375,000 is allocated for the wastewater system.

Vehicle and Communications Fund

The fleet maintenance and communications and electronics divisions operate as internal service funds. Fleet Maintenance provides efficient repair, servicing, and maintenance operations to users of county and School Board vehicles. During the last four fiscal years, the Fleet Maintenance Shop has concentrated on updating all shop equipment, focused on improving customer service standards, and implemented a personal career path strategy for each fleet employee to meet growing customer service requirements and future fleet maintenance needs. Training for employees has become vital in order to keep abreast of the ever more sophisticated components and the associated test and diagnostic equipment required in today's vehicle maintenance market.

Recent dividends for these efforts have resulted in the acceptance of the light vehicle shop into the General Motors, Ford and Daimler Chrysler Corporations fleet maintenance programs. Doing so permits county staff to perform warranty repairs on county fleet vehicles resulting in quicker turnaround times while also providing for manufacturer reimbursement to the county for the work.

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The Fleet's budget for FY2004 reflects continued growth of the county's automotive fleet, both in number of vehicles and miles driven. The FY2004 budget includes \$700,000 to purchase 59 replacement vehicles. The FY2004 budget also includes salary and benefit increases. Labor rates will remain constant for FY2004.

The Communications and Electronics Division provides technical support and repair services for all county owned radios, pagers, towers, or other communication devices. The upgrade of the E-911 Communications Center to an 800 MHz system was installed and accepted by the county at the end of April 2002. During the twelve-month warranty period, radio shop staff has been taking on-site training classes and learning through on-the-job training in order to prepare them for system maintenance once the warranty period expires.

Increases in the communications budget can be directly linked to the installation of the new 800 MHz system. The FY2004 budget includes adequate funding to operate and maintain the new system.

GFOA Distinguished Budget Award

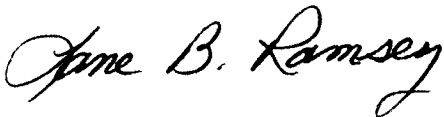
The Government Finance Officers Association of the United States and Canada (GFOA), a national organization, each year recognizes budgets that meet certain rigorous standards. GFOA presented an Award of Distinguished Budget Presentation to Chesterfield County for its biennial budget for the fiscal year beginning July 1, 2002. To achieve this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a communications medium and as a financial plan. The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements and we are submitting it to GFOA to determine its eligibility for another award. Chesterfield County was one of the few localities to earn the award for nineteen consecutive years. The award, along with the Certificate of Excellence in Financial Reporting, and the Accreditation Achievement Award for excellence in public purchasing, helps Chesterfield County present a quality image to bond rating agencies and other outside organizations.

Summary

The budget represents the Administration's best effort to strike a delicate balance between available funding levels and the diversified array of services offered to citizens. It is in these difficult economic times that I am confident we will find ways to satisfy the most important of priorities, while looking for ways to continually improve on what we do. Although funding for new services and programs has been constrained, productivity enhancements will continue to be advanced by our front line employees utilizing the TQI philosophy. Through these efforts we hope to preserve existing services to fulfill our mission statement: PROVIDING A **FIRST CHOICE** COMMUNITY THROUGH EXCELLENCE IN PUBLIC SERVICE.

I would like to thank our staff for their many hours of hard work and their contribution to the development of this budget. The input of the Board of Supervisors in establishing priorities is vital. The amount of time devoted by the Budget and Audit Committee of the Board of Supervisors is also greatly appreciated.

Sincerely,

A handwritten signature in cursive script that reads "Lane B. Ramsey". The signature is written in dark ink and is positioned above the printed name and title.

Lane B. Ramsey
County Administrator